

SAMPLE CASH CITY
AUDIT REPORT SUPPLEMENT
JUNE 30, 2005

Office of
**AUDITOR
OF STATE**
State Capitol Building • Des Moines, Iowa



David A. Vaudt, CPA
Auditor of State



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Fellow CPAs:

This sample report is presented by the Office of Auditor of State as required by Chapter 11 of the Code of Iowa. In developing this report, we have made every effort to ensure the highest professional standards have been followed while attempting to provide meaningful and useful information to the citizens, our ultimate client.

For the year ended June 30, 2005, guidance on changes and updates is provided in this audit report supplement format. This supplement should be used in conjunction with the fiscal 2004 sample report previously issued by this office.

Audits of governmental subdivisions should be performed in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and, if applicable, the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Beginning with audits for the fiscal year ended June 30, 2005, references to Chapter 11 of the Code of Iowa in the Independent Auditor's Report (1) on the financial statements, (2) on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and (3) on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 are no longer required. We have determined the Chapter 11 audit requirements are met through the application of generally accepted auditing standards and Government Auditing Standards. This change does NOT affect the audit procedures to be applied in auditing compliance with the requirements of Chapter 11, such as a review of internal control, testing of transactions for compliance, and for schools, an audit of the certified annual report and the certified enrollment. This is only a change in reporting.

This sample report has been prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Reports for audits of cities with financial statements prepared in accordance with U.S. generally accepted accounting principles should conform to guidelines provided in Governmental Accounting and Financial Reporting Standards published by the Governmental Accounting Standards Board.

The format displays the basic financial statements, required and other supplementary information and the Schedule of Findings and Questioned Costs which are necessary to meet the requirements of this office. The detail presented in the financial statements and supplementary information is the minimum breakdown that will be acceptable subject, of course, to materiality considerations. If the auditor and the local government feel more detail is necessary to provide a

fair presentation, this of course will be welcome. A sample such as this cannot present all situations which you may encounter, so the auditor's professional judgment must be used in determining the additional information to be shown as well as the footnotes to be presented.

We have included as attachments to this letter some information related to municipal utility audits. We have also included illustrations of note disclosure for a city's participation in the Municipal Fire and Police Retirement System of Iowa (note X) (as noted in the June 30, 2004 sample report) and Iowa Community Assurance Pool (ICAP), a local government risk pool (note Y).

Entities with \$500,000 or more of federal expenditures are required to receive a Single Audit in accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Any questions concerning Single Audit requirements should be directed to the City's cognizant or oversight agency.

In accordance with OMB Circular A-133, one copy of the reporting package and Data Collection Form shall be submitted within 30 days after issuance of the audit report to a central clearinghouse. The Data Collection Form is available on the Federal Audit Clearinghouse (FAC) website at <http://harvester.census.gov/sac> or by calling 1-800-253-0696 (Form number SF-SAC). Auditees are encouraged to use the on-line Internet submission option available on the FAC website. Submission of the on-line Internet Form SF-SAC will require the user to submit a hard copy of the final form with the auditee and auditor signatures. Additional copies of the reporting package or notifications of audit should be submitted to the central clearinghouse or to grantor pass-through entities in accordance with the filing requirements of the Circular.

The Office of Management and Budget has designated the United States Department of Commerce, Bureau of the Census as the Single Audit Clearinghouse. Reporting packages should be submitted to:

Federal Audit Clearinghouse
1201 E. 10th Street
Jeffersonville, IN 47132

The findings on compliance, items IV-A-04 through IV-H-04 (as noted in the June 30, 2004 sample report), detail those items which are to be included regardless of whether there are any instances of non-compliance or not. Any instances of non-compliance in other areas should also be reported.

We have also included a page for listing the staff actually performing the audit. Although we have found this page to be helpful, you are not required to use it.

Reports, including the management letters(s) if issued separately, are to be filed with this office within nine months following the end of the fiscal year subject to audit. However, reports should be filed with this office upon release to the City. The per diem audit billing (including fee, expenses and hours) should be submitted with the reports filed with our office.

Public access to reports issued by the Auditor of State and by CPA firms will be available through the internet. To allow this, you should submit an electronic copy of each FY2005 audit report, in PDF format, to our office in addition to the two paper copies submitted. The PDF files should be e-mailed to submitreports@auditor.state.ia.us. If you are unable to e-mail the file, you may mail a CD containing the PDF file to our office. You may direct any questions about submitting the electronic copy of the audit reports to the above e-mail address.

As required by Chapter 11 of the Code of Iowa, the news media are to be notified of the issuance of the audit report by the CPA firm, unless the firm has made other arrangements with the local government for the notification. We have developed a standard news release to be used for this purpose. The news release may be completed by the local government and a copy should be sent to this office with two copies of the audit report sent by the CPA firm. We will make a copy of the audit report and news release available to the news media in this office.

In accordance with Chapter 11 of the Code of Iowa, this office is to be notified immediately regarding any suspected embezzlement or theft.

Finally, I would like to express my appreciation to all CPA firms who are providing audit or other services to local governments. Together, we are able to provide a significant benefit to all taxpayers in the state.

DAVID A. VAUDT, CPA
Auditor of State

**Sample Cash City
Audit Report Supplement
June 30, 2005**

For the fiscal year ended June 30, 2005, guidance on changes and updates is provided in this 2005 Audit Report Supplement. This supplement should be used in conjunction with the fiscal 2004 sample audit report previously issued by this office.

Additional Footnotes

1. Note (Y) Risk Management – Replace with attached note.

Information Related to Municipal Utility Audits

2. Replace with attached page.

Additional Notes

3. Insert attached Number 4 regarding telecommunication services.

News Release

4. Delete 2nd paragraph regarding implementation of new reporting standard.

Independent Auditor's Report (IAR)

5. Replace with the attached report.

Management's Discussion and Analysis (MD&A)

6. Delete 2nd paragraph

Notes to the Financial Statements

7. Note 2 Cash and Pooled Investments – replace with the attached note.
8. Note 4 Pension and Retirement Benefits – replace with the attached note.
9. Note 14 Accounting Change and Restatements – delete note.

Required Supplementary Information (RSI)

10. Notes to RSI – Budgetary Reporting – replace with attached note.

Other Supplementary Information (RSI)

11. Schedule 1 - \$46,540 disbursed from the Capital Projects Fund under the public works function would more appropriately be disbursed from the capital projects function. You should consider the effect of this reclassification in other areas of the sample report.

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

12. Replace with the attached report.

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance

13. Replace with the attached report.

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(Y) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 509 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2005 were \$_____.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual

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member. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with _____. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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**Information Related to
Municipal Utility Audits**

Municipal Utility audit report format should include the following:

1. Officials
2. Independent Auditor's Report
3. Management's Discussion and Analysis
4. Financial Statements
5. Required Supplementary Information (comparison of budget to actual)
6. Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
7. Schedule of Findings:

Findings Related to the Financial Statements

Other Findings Related to Statutory Reporting:

- a. Official Depositories
- b. Certified Budget
- c. Questionable Disbursements
- d. Travel Expense
- e. Business Transactions
- f. Bond Coverage
- g. Board Minutes
- h. Revenue Bonds/Notes
- i. Deposits and Investments
- j. Telecommunication Services (if applicable)

Findings (a) through (j) are to be included regardless of whether there are any instances of non-compliance or not. See additional notes number 4 for more information relating to finding (j) on telecommunication services.

Municipal Utilities may be component units of a City which may affect the Independent Auditor's Report and the footnote disclosure of the reporting entity.

Municipal Utility audits must meet the reporting and filing requirements prescribed in Chapter 11 of the Code of Iowa and must be performed in accordance with the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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Additional Notes

4. Under Chapter 388.10 of the Code of Iowa, the City has the responsibility to ensure these provisions are met as well as the responsibility for annual certification of compliance. In any year when the City or utility is not audited, the City or utility must contract with the Auditor of State or a certified public accountant to “attest to the certification”.

The Auditor of State is currently addressing other issues related to this requirement, such as applicability of the RFP process, filing of attestation reports with this Office, applicability of filing fee to attestation reports and other related issues. Updates will be posted at www.auditor.iowa.gov/index.html in the Audit Practice Aids – Technical Update section.

Chapter 11.6(1)(a) requires the audit of a City that owns or operates a municipal utility providing telecommunications services to include an audit of the City’s compliance with Chapter 388.10 of the Code of Iowa. Procedures to test this compliance requirement are included in the 2005 City Audit Program Guide Supplement.

If these provisions are applicable to the City, the auditor is required to include a comment on telecommunications services in the Schedule of Findings and Questioned Costs, regardless of whether there is non-compliance or not.

Following are sample audit report comments for reporting on telecommunication services.

No non-compliance noted – for separate Utility audit or City audit which includes the Utility:

Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

Non-compliance noted – for separate Utility audit or City audit which includes the Utility:

Telecommunication Services – The City (or Utility) did not consistently allocate the cost of use of City (or Utility) employees, equipment and other services used by the telecommunication municipal utility as required by Chapter 388.10 of the Code of Iowa. The allocation of costs to the utility was based on time studies of certain City (or utility) employees but the percentage allocations included mathematical errors. The errors resulted in an understatement of telecommunication services expenses of \$7,616 for the year ended June 30, 2005.

Recommendation – A corrective transfer of \$7,616 should be made from the Telecommunications Services Fund to the Gas Fund.

Response – A corrective transfer will be made.

Conclusion – Response accepted.



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Sample Cash City, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the Sample Cash City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Sample Cash City as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2005 on our consideration of the Sample Cash City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 13 and 32 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the

methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sample Cash City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 20, 2005

DAVID A. VAUDT, CPA
Auditor of State

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(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2005, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Governmental National Mortgage Association (GNMA)	\$ 200,000	210,000	October 2006

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$150,000 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

The City had one certificate of deposit that was held in a depository outside the State of Iowa.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk – The City's investment in the Iowa Public Agency Investment Trust is unrated.

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(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$4,121, \$3,872 and \$3,792, respectively, equal to the required contributions for each year.

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Sample Cash City

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$153,700. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the general government and business type activities functions.



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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with Government Auditing
Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Sample Cash City, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated September 20, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sample Cash City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Sample Cash City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-05 and II-C-05 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sample Cash City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could

have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Sample Cash City and other parties to whom the Sample Cash City may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Sample Cash City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

September 20, 2005

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Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the Sample Cash City, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2005. Sample Cash City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the Sample Cash City's management. Our responsibility is to express an opinion on the Sample Cash City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Sample Cash City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Sample Cash City's compliance with those requirements.

In our opinion, the Sample Cash City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of non-compliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described as item III-A-05 in the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

The management of the Sample Cash City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Sample Cash City's internal

control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Sample Cash City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-B-05 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-B-05 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Sample Cash City and other parties to whom the Sample Cash City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

September 20, 2005

DAVID A. VAUDT, CPA
Auditor of State